ALLEGHENY GENERATING COMPANY

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

GLOSSARY OF TERMS

The following abbreviations and acronyms may be used in these financial statements to identify Allegheny Generating Company and its current and former affiliated companies:

AE Supply	Allegheny Energy Supply Company, LLC, an unregulated affiliated company
AGC	Allegheny Generating Company, a generation subsidiary of MP
ATSI	American Transmission Systems, Incorporated, formerly a direct subsidiary of FE that became a subsidiary of FET in April 2012, which owns and operates transmission facilities
CEI	The Cleveland Electric Illuminating Company, an Ohio electric utility operating affiliated company
FE	FirstEnergy Corp., a publicly owned holding company
FE Board	The Board of Directors of FirstEnergy Corp.
FENOC	Energy Harbor Nuclear Corp. (formerly known as FirstEnergy Nuclear Operating Company), a subsidiary of EH, which operates NG's nuclear generating facilities
FET	FirstEnergy Transmission, LLC, formerly known as Allegheny Energy Transmission, LLC, which is the parent of ATSI, KATCo, MAIT and TrAIL and has a joint venture in PATH
FES	Energy Harbor LLC. (formerly known as FirstEnergy Solutions Corp.), a subsidiary of EH, which provides energy-related products and services
FESC	FirstEnergy Service Company, which provides legal, financial and other corporate support services
FirstEnergy	FirstEnergy Corp., together with its consolidated subsidiaries
JCP&L	Jersey Central Power & Light Company, a New Jersey electric utility operating affiliated company
KATCo	Keystone Appalachian Transmission Company, a subsidiary of FET
MAIT	Mid-Atlantic Interstate Transmission, LLC, a subsidiary of FET, which owns and operates transmission facilities
ME	Metropolitan Edison Company, a Pennsylvania electric utility operating affiliated company
MP	Monongahela Power Company, a West Virginia electric utility operating affiliated company
OE	Ohio Edison Company, an Ohio electric utility operating company
PATH	Potomac-Appalachian Transmission Highline, LLC, a joint venture between FE and a subsidiary of AEP
PE	The Potomac Edison Company, a Maryland and West Virginia electric utility operating affiliated company
Penn	Pennsylvania Power Company, a Pennsylvania electric utility operating subsidiary of OE
PN	Pennsylvania Electric Company, a Pennsylvania electric utility operating affiliated company
TE	The Toledo Edison Company, an Ohio electric utility operating affiliated company
TrAIL	Trans-Allegheny Interstate Line Company, a subsidiary of FET, which owns and operates transmission facilities
Transmission Companies	ATSI, MAIT and TrAIL
Utilities	OE, CEI, TE, Penn, JCP&L, ME, PN, MP, PE and WP
WP	West Penn Power Company, a Pennsylvania electric utility operating affiliated company

The following abbreviations and acronyms may be used to identify frequently used terms in these financial statements:

Bath Power Station	Bath County Pumped Storage Hydro-Power Station
ADIT	Accumulated Deferred Income Taxes
AFUDC	Allowance for Funds Used During Construction
AMT	Alternative Minimum Tax
ASC	Accounting Standard Codification
ASU	Accounting Standards Update
COVID-19	Coronavirus disease 2019
CSR	Conservative Support Rider
FASB	Financial Accounting Standards Board
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
GAAP	Accounting Principles Generally Accepted in the United States of America
HB 6	Ohio House Bill 6

IRS	Internal Revenue Service
LS Power	LS Power Equity Partners, LP
MW	megawatts
N.D. Ohio	Northern District of Ohio
NOL	Net Operating Loss
OAG	Ohio Attorney General
PUCO	Public Utilities Commission of Ohio
SAB	SEC Staff Accounting Bulletin
S.D. Ohio	Southern District of Ohio
SEC	United States Securities and Exchange Commission
Tax Act	Tax Cuts and Jobs Act adopted December 22, 2017
VSCC	Virginia State Corporation Commission

Report of Independent Auditors

To Management and the Board of Directors
of Allegheny Generating Company

We have audited the accompanying financial statements of Allegheny Generating Company (the "Company"), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, of common stockholder's equity, and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allegheny Generating Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cleveland, Ohio
March 18, 2021

ALLEGHENY GENERATING COMPANY
STATEMENTS OF INCOME

(In thousands)	For the Years Ended December 31, 2020	2019
REVENUES	$ 24,228	$ 22,884
OPERATING EXPENSES:		
Other operating expenses	6,740	3,813
Provision for depreciation	5,143	5,770
General taxes	1,257	1,269
Total operating expenses	13,140	10,852
OPERATING INCOME	11,088	12,032
OTHER INCOME (EXPENSE):		
Miscellaneous income, net	106	87
Interest expense	(2,275)	(1,826)
Total other expense	(2,169)	(1,739)
INCOME BEFORE INCOME TAXES	8,919	10,293
INCOME TAXES	364	2,101
NET INCOME	$ 8,555	$ 8,192

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

ALLEGHENY GENERATING COMPANY
BALANCE SHEETS

(In thousands, except share amounts)	December 31, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ —	$ 25,000
Receivables - affiliated companies	10,287	3,601
Materials and supplies, at average cost	1,351	1,291
Prepaid taxes and other	728	925
	12,366	30,817
UTILITY PLANT:		
In service	201,026	201,026
Less — Accumulated provision for depreciation	47,400	42,260
	153,626	158,766
Construction work in progress	3,047	2,331
	156,673	161,097
	$ 169,039	$ 191,914
LIABILITIES AND CAPITALIZATION		
CURRENT LIABILITIES:		
Accounts payable-		
Affiliated companies	$ 302	$ 2,155
Other	533	677
Short-term borrowings - affiliated companies	576	2,160
Accrued taxes	28	860
Accrued interest	99	99
Other	82	70
	1,620	6,021
CAPITALIZATION:		
Common stockholder's equity-		
Common stock, $1 par value, 5,000 shares authorized - 451 shares outstanding	1	1
Other paid-in capital	41,196	57,947
Retained earnings	4,780	5,225
Total common stockholder's equity	45,977	63,173
Long-term debt and other long-term obligations	49,682	49,645
	95,659	112,818
NONCURRENT LIABILITIES:		
Accumulated deferred income taxes	18,810	18,411
Accumulated deferred investment tax credits	17,474	18,793
Regulatory liabilities	35,467	35,862
Other	9	9
	71,760	73,075
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
	$ 169,039	$ 191,914

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

ALLEGHENY GENERATING COMPANY
STATEMENTS OF COMMON STOCKHOLDER'S EQUITY

	Common Stock				
(In thousands, except share amounts)	Number of Shares	Carrying Value	Other Paid-in Capital	Retained Earnings	Total Stockholder's Equity
Balance, January 1, 2019	451	$ 1	$ 53,301	$ 21,033	$ 74,335
Net income				8,192	8,192
Consolidated tax benefit allocation			4,646		4,646
Reacquisition of common stock					—
Cash dividends declared on common stock				(24,000)	(24,000)
Balance, December 31, 2019	451	$ 1	$ 57,947	$ 5,225	$ 63,173
Net income				8,555	8,555
Consolidated tax benefit allocation			249		249
Cash dividends declared on common stock			(17,000)	(9,000)	(26,000)
Balance, December 31, 2020	451	$ 1	$ 41,196	$ 4,780	$ 45,977

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

ALLEGHENY GENERATING COMPANY
STATEMENTS OF CASH FLOWS

(In thousands)	For the Years Ended December 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 8,555	$ 8,192
Adjustments to reconcile net income to net cash from operating activities-		
Depreciation and amortization	5,823	6,899
Deferred income taxes and investment tax credits, net	(1,997)	(7,559)
Changes in current assets and liabilities-		
Receivables	(6,437)	5,938
Materials and supplies	(60)	26
Prepaid taxes and other current assets	197	3,249
Accounts payable	(1,997)	(510)
Accrued taxes	(832)	(310)
Accrued interest	—	99
Other current liabilities	12	(36)
Other	37	20
Net cash provided from operating activities	3,301	16,008
CASH FLOWS FROM FINANCING ACTIVITIES:		
New financing-		
Long-term debt	—	50,000
Redemptions and repayments-		
Short-term borrowings - affiliated companies, net	(1,584)	(37,353)
Common stock dividend payments	(26,000)	(24,000)
Other	—	(376)
Net cash used for financing activities	(27,584)	(11,729)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property additions	(717)	(1,500)
Proceeds from asset sale	—	22,221
Net cash provided from (used for) investing activities	(717)	20,721
Net change in cash, cash equivalents, and restricted cash	(25,000)	25,000
Cash, cash equivalents, and restricted cash at beginning of period	25,000	—
Cash, cash equivalents, and restricted cash at end of period	$ —	$ 25,000
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year -		
Interest (net of amounts capitalized)	$ 2,237	$ 1,705
Income taxes, net of refunds	$ 2,965	$ 1,996

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

ALLEGHENY GENERATING COMPANY
NOTES TO FINANCIAL STATEMENTS

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1. ORGANIZATION AND BASIS OF PRESENTATION

Unless otherwise indicated, defined terms and abbreviations used herein have the meanings set forth in the accompanying Glossary of Terms.

AGC is incorporated in Virginia. AGC holds an undivided 16.25% interest (487 MWs) in the output of Bath Power Station. This station is operated by the majority owner, Virginia Electric and Power Company, a non-affiliated utility. AGC provides its generation capacity from this station to MP. Prior to November 15, 2019, AGC also held an undivided 40% interest in its connecting transmission facilities. AGC sold their interest in these transmission facilities to VEPCO on November 15, 2019. AGC is subject to regulation by the VSCC and FERC.

The preparation of financial statements in conformity with GAAP requires management to make periodic estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates. The reported results of operations are not necessarily indicative of results of operations for any future period. AGC has evaluated events and transactions for potential recognition or disclosure through March 18, 2021, the date the financial statements were issued.

Certain prior year amounts have been reclassified to conform to the current year presentation.

COVID-19

The outbreak of COVID-19 has become a global pandemic. AGC is continuously evaluating the global pandemic and taking steps to mitigate known risks. The full impact on AGC’s business from the pandemic, including the governmental and regulatory responses, is unknown at this time and difficult to predict. AGC provides a critical and essential service to its customers and the health and safety of its employees and customers is its first priority. AGC is continuously monitoring its supply chain and is working closely with essential vendors to understand the continued impact of COVID-19 to its business and does not currently expect service disruptions or any material impact on its capital spending plan.

Currently, AGC is effectively managing operations during the pandemic in order to continue to provide critical service to customers, however, the situation remains fluid and future impacts to AGC that are presently unknown or unanticipated may occur. Furthermore, the likelihood of an impact to AGC, and the severity of any impact that does occur, could increase the longer the global pandemic persists.

RECEIVABLES

Revenues of AGC are determined under a "cost-of-service" wholesale rate schedule approved by FERC. Under this arrangement, AGC recovers in revenues from its owner, MP, its operation and maintenance expenses, depreciation, taxes other than income taxes, income tax expense at the statutory rate and a component for debt and equity return on its investment. In return, MP receives AGC's share of the power generated by the station.

ACCOUNTING FOR THE EFFECTS OF REGULATION

Regulatory assets represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent amounts that are expected to be credited to customers through future regulated rates or amounts collected from customers for costs not yet incurred. AGC nets its regulatory assets and liabilities based on federal and state jurisdictions. AGC considers the entire regulatory asset balance as the unit of account for the purposes of balance sheet classification rather than the next years recovery and as such net regulatory assets and liabilities are presented in the non-current section on the AGC Balance Sheets.

Management assesses the probability of recovery of regulatory assets at each balance sheet date and whenever new events occur. Factors that may affect probability relate to changes in the regulatory environment, issuance of a regulatory commission order or passage of new legislation. Management applies judgment in evaluating the evidence available to assess the probability of recovery of regulatory assets from customers, including, but not limited to evaluating evidence related to precedent for similar items at AGC and information on comparable companies within similar jurisdictions, as well as assessing progress of communications between AGC and regulators.

Net regulatory liabilities as of December 31, 2020 and December 31, 2019, were comprised of $35 million and $36 million, respectively, in customer payables for future income taxes. These liabilities reflect amounts to be recovered or refunded through future rates to pay income taxes that become payable when rate revenue is provided to recover items such as AFUDC-equity and depreciation of property, plant and equipment for which deferred income taxes were not recognized for ratemaking purposes, including amounts attributable to tax rate changes such as the Tax Act. These amounts are being amortized over the period in which the related deferred tax assets reverse, which is generally over the expected life of the underlying asset.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment reflects original cost, including payroll and related costs such as taxes, employee benefits, administrative and general costs, and interest costs incurred to place the assets in service. The costs of normal maintenance, repairs and minor replacements are expensed as incurred. AGC recognizes liabilities for planned major maintenance projects as they are incurred.

AGC evaluates long-lived assets classified as held and used for impairment when events or changes in circumstances indicate the carrying value of the long-lived assets may not be recoverable. First, the undiscounted future cash flows attributable to the assets is compared with the carrying value of the assets. If the carrying value is greater than the undiscounted future cash flows, an impairment charge is recognized equal to the amount the carrying value of the assets exceeds its estimated fair value.

AGC provides for depreciation on a straight-line basis at various rates over the estimated lives of property included in plant in service. Depreciation expense was approximately 1.5% of average depreciable property in both 2020 and 2019.

JOINTLY-OWNED PLANTS

As noted above, AGC, owns an undivided 16.25% interest (487 MWs) in a 3,003 MW pumped storage, hydroelectric station in Bath County, Virginia, operated by the 60% owner, VEPCO, a non-affiliated utility. Net Property, plant and equipment includes $157 million, representing AGC's share in this facility as of December 31, 2020. AGC is obligated to pay its share of the costs of this jointly-owned facility in the same proportion as its ownership interest using its own financing. AGC provides the generation capacity from this facility to is owner, MP.

NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Pronouncements

ASU 2018-15, "*Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*" (Issued August 2018): ASU 2018-15 allows implementation costs incurred by customers in cloud computing arrangements to be deferred and recognized over the term of the arrangement, if those costs would be capitalized by the customers in a software licensing arrangement. This standard was adopted as of January 1, 2020, with no material impact to the financial statements.

Recently Issued Pronouncements - The following new authoritative accounting guidance issued by the FASB has not yet been adopted. Unless otherwise indicated, AGC is currently assessing the impact such guidance may have on its financial statements and disclosures, as well as the potential to early adopt where applicable. AGC has assessed other FASB issuances of new standards not described below and has not included these standards based upon the current expectation that such new standards will not significantly impact AGC's financing reporting.

ASU 2019-12, "Simplifying the Accounting for Income Taxes" (Issued in December 2019): ASU 2019-12 enhances and simplifies various aspects of the income tax accounting guidance including the elimination of certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. FirstEnergy continues to evaluate the new guidance, but currently does not expect a material impact upon adopting this standard.

2. REVENUE

AGC accounts for revenues from contracts with customers under ASC 606, Revenue from Contracts with Customers. Revenue from leases, financial instruments, other contractual rights or obligations and other revenues that are not from contracts with customers are outside the scope of the standard and accounted for under other existing GAAP. AGC has elected to exclude sales taxes and other similar taxes collected on behalf of third parties from revenue as prescribed in the new standard. As a result, tax collections and remittances within the scope of this election are excluded from recognition in the income statement and instead recorded through the balance sheet. Gross receipts taxes that are assessed on AGC are not subject to the election and are included in revenue. AGC has elected the optional invoice practical expedient for most of its revenues and utilizes the optional short-term contract exemption for transmission revenues due to the annual establishment of revenue requirements, which eliminates the need to provide certain revenue disclosures regarding unsatisfied performance obligations.

Wholesale sales consist of generation and capacity sales to MP under a "cost of service" rate schedule approved by FERC. Capacity revenues are recognized ratably over the PJM planning year at prices cleared in the annual BRA and incremental auctions. Capacity purchases and sales through PJM capacity auctions are reported within revenues on the Income Statement. Certain capacity income (bonuses) and charges (penalties) related to the availability of units that have cleared in the auctions are unknown and not recorded in revenue until, and unless, they occur.

Wholesale revenues for the years ended December 31, 2020 and 2019 were approximately $24 million and $23 million, respectively. These amounts include approximately $1 million for the years ended December 31, 2020 and 2019, respectively, in reductions to revenue related to amounts subject to refund resulting from the Tax Act.

3. TAXES

AGC records income taxes in accordance with the liability method of accounting. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts recognized for tax purposes. Investment tax credits, which were deferred when utilized, are being amortized over the recovery period of the related property. Deferred income tax liabilities related to temporary tax and accounting basis differences and tax credit carryforward items are recognized at the statutory income tax rates in effect when the liabilities are expected to be paid. Deferred tax assets are recognized based on income tax rates expected to be in effect when they are settled.

AGC is party to an intercompany income tax allocation agreement with FE that provides for the allocation of consolidated tax liabilities. Net tax benefits attributable to FirstEnergy, excluding any tax benefits derived from interest expense associated with acquisition indebtedness from the merger with GPU, are reallocated to the subsidiaries of FirstEnergy that have taxable income. That allocation is accounted for as a capital contribution to the company receiving the tax benefit.

On March 27, 2020, President Trump signed into law the CARES Act, an economic stimulus package in response to the COVID-19 pandemic containing several corporate income tax provisions, including making remaining AMT credits immediately refundable; providing a 5-year carryback of NOLs generated in tax years 2018, 2019, and 2020, and removing the 80% taxable income limitation on utilization of those NOLs if carried back to prior tax years or utilized in tax years beginning before 2021; and temporarily liberalizing the interest deductibility rules under Section 163(j) of the Tax Act, by raising the adjusted taxable income limitation from 30% to 50% for tax years 2019 and 2020 and giving taxpayers the election of using 2019 adjusted taxable income for purposes of computing 2020 interest deductibility. AGC does not currently expect the provisions of the CARES Act to have a material effect on current income tax expense or the realizability of deferred income tax assets.

On December 27, 2020, President Trump signed into law the Consolidated Appropriations Act, 2021, an additional stimulus package providing financial relief for individuals and small businesses. The Appropriations Act contains a variety of tax provisions, including full expensing of business meals in 2021 and 2022, extensions of various energy tax incentives (including the Investment Tax Credit), and expansion of the employee retention tax credit. AGC does not currently expect the Appropriations Act to have a material tax impact.

On July 28, 2020, the IRS issued final regulations implementing interest expense deduction limitation rules under section 163(j) of the Internal Revenue Code. The final regulations changed certain rules on the computation of interest expense and limitation amount, as well as rules relevant to status as a regulated utility business and the allocation of consolidated group interest expense between utility and non-utility businesses. On January 6, 2021, the IRS released an additional set of final regulations under Section 163(j) primarily addressing partnership, real estate, and certain controlled foreign corporation issues, which do not materially impact AGC.

	For the Years Ended December 31,	
INCOME TAXES (BENEFITS):	**2020**	**2019**
	(In thousands)	
Currently payable-		
Federal	$ 2,002	$ 3,302
State	359	6,358
	2,361	9,660
Deferred, net-		
Federal	(759)	(6,124)
State	82	(115)
	(677)	(6,239)
Investment tax credit amortization	(1,320)	(1,320)
Total income taxes (benefits)	$ 364	$ 2,101

AGC's tax rates are affected by permanent items, as well as discrete items that may occur in any given period, but are not consistent from period to period. The following table provides a reconciliation of federal income tax expense at the federal statutory rate to the total income taxes for the years ended December 31, 2020 and 2019:

(In thousands)	For the Years Ended December 31, 2020	2019
Book income from continuing operations before income taxes	$ 8,919	$ 10,293
Federal income tax expense at statutory rate	$ 1,873	$ 2,162
Increases (reductions) in taxes resulting from-		
State income tax, net of federal income tax benefit	354	5,304
Amortization of deferred investment tax credits	(1,320)	(1,320)
Excess deferred tax amortization due to the Tax Act	(523)	(869)
Federal RTA adjustment resulting from sale of Bath	—	(3,122)
Other	(20)	(54)
Total income taxes	$ 364	$ 2,101
Effective income tax rate	4.1 %	20.4 %

AGC's effective tax rate on pre-tax income for 2020 and 2019 was 4.1% and 20.4%, respectively. The change in the effective tax rate was primarily due to the absence of federal and state tax true-ups recorded in 2019 associated with the sale of the Bath Hydro plant.

Accumulated deferred income taxes as of December 31, 2020 and 2019, were as follows:

(In thousands)	As of December 31, 2020	2019
Property basis differences	$ 24,508	$ 24,922
Unamortized investment tax credits	(5,233)	(5,629)
Disallowed interest carryforward	(1,488)	(1,448)
Valuation allowance on disallowed interest carryforward	1,488	1,448
Other	(465)	(882)
Net deferred income tax liabilities	$ 18,810	$ 18,411

AGC has recorded as deferred income tax assets the effect of NOLs and tax credits that will more likely than not be realized through future operations and through the reversal of existing temporary differences. As of December 31, 2020, AGC's deferred income tax assets attributable to loss carryforwards and tax credits were immaterial.

AGC accounts for uncertainty in income taxes recognized in its financial statements. A recognition threshold and measurement attribute are utilized for financial statement recognition and measurement of tax positions taken or expected to be taken on a company's tax return. For the years ended December 31, 2020 and 2019, AGC did not record any unrecognized tax benefits, nor does AGC have a reserve for any uncertain tax positions.

AGC recognizes interest expense or income and penalties related to uncertain tax positions in income taxes. That amount is computed by applying the applicable statutory interest rate to the difference between the tax position recognized and the amount previously taken or expected to be taken on the federal income tax return. During 2020 and 2019, AGC did not record any interest related to uncertain tax positions, nor did AGC have cumulative net interest payable recorded on its balance sheets.

For federal income tax purposes, AGC files as a member of the FE consolidated group. Tax years 2018 and 2019 are currently under review by the IRS. AGC has tax returns under review by state taxing authorities at the audit or appeals level for tax years 2017-2019.

General Taxes

General taxes associated with real and personal property taxes were approximately $1.3 million December 31, 2020 and 2019. respectively.

4. FAIR VALUE MEASUREMENTS

All borrowings with initial maturities of less than one year are defined as short-term financial instruments under GAAP and are reported as Short-term borrowings on the Balance Sheets at cost. Since these borrowings are short-term in nature, AGC believes that their costs should approximate their fair market value. The following table provides the approximate fair value and related carrying value of long-term debt and other long-term obligations:

	December 31, 2020		December 31, 2019	
(In millions)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Long-term debt	$ 50	$ 54	$ 50	$ 55

The fair values of long-term debt and other long-term obligations reflect the present value of the cash outflows relating to those securities based on the current call price, the yield to maturity or the yield to call, as deemed appropriate at the end of each respective period. The yields assumed were based on securities with similar characteristics offered by corporations with credit ratings similar to those of AGC. AGC classified short-term borrowings, long-term debt and other long-term obligations as Level 2 in the fair value hierarchy as of December 31, 2020 and December 31, 2019.

5. CAPITALIZATION

COMMON STOCK

In addition to paying dividends from retained earnings, AGC has authorization from the FERC to pay cash dividends to AE Supply and MP from paid-in capital accounts, as long as its FERC-defined equity-to-total-capitalization ratio remains above 45%.

LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

As of December 31, 2020 and 2019, AGC has $50 million of 4.47% senior unsecured notes outstanding due 2029.

6. SHORT-TERM BORROWINGS AND BANK LINES OF CREDIT

AGC had $1 million and $2 million of outstanding short-term borrowings as of December 31, 2020 and 2019, respectively.

FirstEnergy Money Pool

AGC has the ability to borrow from FE's unregulated companies and FE to meet its short-term working capital requirements but AGC is not permitted to lend to either FE's unregulated companies or FE. FESC administers this money pool and tracks surplus funds of FE and applicable subsidiaries, as well as proceeds available from bank borrowings. Companies receiving a loan under the money pool agreement must repay the principal amount of the loan, together with accrued interest, within 364 days of borrowing the funds. The rate of interest is the same for each company receiving a loan from the pool and is based on the average cost of funds available through the pool. The average interest rate for borrowings in 2020 was 1.19% per annum.

7. REGULATORY MATTERS

FERC REGULATORY MATTERS

With respect to its wholesale services and rates, AGC is subject to regulation by FERC.

8. COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

Various federal, state and local authorities regulate AGC with regard to air and water quality, hazardous and solid waste disposal, and other environmental matters. While AGC’s environmental policies and procedures are designed to achieve compliance with applicable environmental laws and regulations, such laws and regulations are subject to periodic review and potential revision by the implementing agencies. AGC cannot predict the timing or ultimate outcome of any of these reviews or how any future actions taken as a result thereof may materially impact its business, results of operations, cash flows and financial condition.

OTHER LEGAL PROCEEDINGS

United States v. Larry Householder, et al.

On July 21, 2020, a complaint and supporting affidavit containing federal criminal allegations were unsealed against the now former Ohio House Speaker Larry Householder and other individuals and entities allegedly affiliated with Mr. Householder. Also, on July 21, 2020, and in connection with the investigation, FirstEnergy received subpoenas for records from the U.S. Attorney's Office for the S.D. Ohio. FirstEnergy was not aware of the criminal allegations, affidavit or subpoenas before July 21, 2020. No contingency has been reflected in FirstEnergy's consolidated financial statements as a loss is neither probable, nor is a loss or range of a loss reasonably estimable.

Legal Proceedings Relating to United States v. Larry Householder, et al.

In addition to the subpoenas referenced above under "—United States v. Larry Householder, et. al.", certain FE stockholders and FirstEnergy customers filed several lawsuits against FirstEnergy and certain current and former directors, officers and other employees, and the complaints in each of these suits is related to allegations in the complaint and supporting affidavit relating to HB 6 and the now former Ohio House Speaker Larry Householder and other individuals and entities allegedly affiliated with Mr. Householder.

- *Owens v. FirstEnergy Corp. et al.* and *Frand v. FirstEnergy Corp. et al.* (Federal District Court, S.D. Ohio); on July 28, 2020 and August 21, 2020, purported stockholders of FE filed putative class action lawsuits against FE and certain FE officers, purportedly on behalf of all purchasers of FE common stock from February 21, 2017 through July 21, 2020, asserting claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, alleging misrepresentations or omissions by FirstEnergy concerning its business and results of operations. These actions have been consolidated and a lead plaintiff has been appointed by the court. A Consolidated Complaint was filed on February 26, 2021.
- *Gendrich v. Anderson, et al. and Sloan v. Anderson, et al.* (Common Pleas Court, Summit County, OH); on July 26, 2020 and July 31, 2020, respectively, purported stockholders of FE filed shareholder derivative action lawsuits against certain FE directors and officers, alleging, among other things, breaches of fiduciary duty. These actions have been consolidated.
- *Miller v. Anderson, et al.* (Federal District Court, N.D. Ohio); *Bloom, et al. v. Anderson, et al.; Employees Retirement System of the City of St. Louis v. Jones, et al.; Electrical Workers Pension Fund, Local 103, I.B.E.W. v. Anderson et al.; Massachusetts Laborers Pension Fund v. Anderson et al.; The City of Philadelphia Board of Pensions and Retirement v. Anderson et al.; Atherton v. Dowling et al; Behar v. Anderson, et al.* (U.S. District Court, S.D. Ohio, all actions have been consolidated); beginning on August 7, 2020, purported stockholders of FE filed shareholder derivative actions alleging the board and officers breached their fiduciary duties and committed violations of Section 14(a) of the Securities Exchange Act of 1934. The cases in the S.D. OF Ohio have been consolidated and co-lead plaintiffs have been appointed by the court.
- *Smith v. FirstEnergy Corp. et al., Buldas v. FirstEnergy Corp. et al., and Hudock and Cameo Countertops, Inc. v. FirstEnergy Corp. et al.* (Federal District Court, S.D. Ohio); on July 27, 2020, July 31, 2020, and August 5, 2020, respectively, purported customers of FirstEnergy filed putative class action lawsuits against FE and FESC, as well as certain current and former FirstEnergy officers, alleging civil Racketeer Influenced and Corrupt Organizations Act violations and related state law claims. These actions have been consolidated.
- *State of Ohio ex rel. Dave Yost, Ohio Attorney General v. FirstEnergy Corp., et al. and City of Cincinnati and City of Columbus v. FirstEnergy Corp.* (Common Pleas Court, Franklin County, OH); on September 23, 2020 and October 27, 2020, the OAG and the cities of Cincinnati and Columbus, respectively, filed complaints against several parties including FE, each alleging civil violations of the Ohio Corrupt Activity Act in connection with the passage of HB 6. The OAG sought a preliminary injunction to prevent each of the defendants, including FE, through the end of 2020, from: (i) contributing to any groups whose purpose is to keep or modify HB 6; (ii) making any public statements for or against any repeal or modification legislation concerning HB 6; (iii) lobbying, consulting, or advising on these matters; or (iv) contributing to any Ohio legislative candidates. The court denied the OAG's request for preliminary injunctive relief on October 2, 2020. On January 13, 2021, the OAG filed a motion for a temporary restraining order and preliminary injunction against FirstEnergy seeking to enjoin FirstEnergy from collecting the Ohio Companies' decoupling rider. On January 31, 2021, FE reached a partial settlement with the OAG and the cities of Cincinnati and Columbus with respect to the temporary restraining order and preliminary injunction request and related issues. In connection with the partial settlement, the Ohio Companies filed an application on February 1, 2021, with the PUCO to set their respective decoupling riders (CSR) to zero. On February 2, 2021, the PUCO approved the application of the Ohio Companies setting the rider to zero and no additional customer bills will include new decoupling rider charges after February 8, 2021. The cities of Dayton and Toledo have also been added as plaintiffs to the action. These actions have been consolidated.
- *Emmons v. FirstEnergy Corp. et al.* (Common Pleas Court, Cuyahoga County, OH); on August 4, 2020, a purported customer of FirstEnergy filed a putative class action lawsuit against FE, FESC, OE, TE and CEI, along with FES, alleging several causes of action, including negligence and/or gross negligence, breach of contract, unjust enrichment, and unfair or deceptive consumer acts or practices. On October 1, 2020, plaintiffs filed a First Amended Complaint,

adding as a plaintiff a purported customer of FirstEnergy and alleging a civil violation of the Ohio Corrupt Activity Act and civil conspiracy against FE, FESC and FES.

The plaintiffs in each of the above cases, seek, among other things, to recover an unspecified amount of damages (unless otherwise noted). In addition, on August 10, 2020, the SEC, through its Division of Enforcement, issued an order directing an investigation of possible securities laws violations by FE, and on September 1, 2020, issued subpoenas to FE and certain FE officers. Further, in letters dated January 26 and February 22, 2021, staff of FERC's Division of Investigations notified FirstEnergy that the Division is conducting an investigation of FirstEnergy's lobbying and governmental affairs activities concerning HB 6, and staff directed FirstEnergy to preserve and maintain all documents and information related to the same as such have been developed as part of an ongoing audit that is being conducted by FERC's Division of Audits and Accounting. The outcome of any of these lawsuits, investigations and audit are uncertain and could have a material adverse effect on FE’s or its subsidiaries’ financial condition, results of operations and cash flows. No contingency has been reflected in FirstEnergy’s consolidated financial statements as a loss is neither probable, nor is a loss or range of a loss reasonably estimable.

Internal Investigation Relating to United States v. Larry Householder, et al.

As previously disclosed, a committee of independent members of the FE Board is directing an internal investigation related to ongoing government investigations. In connection with FirstEnergy’s internal investigation, such committee determined on October 29, 2020, to terminate FirstEnergy’s Chief Executive Officer, Charles E. Jones, together with two other executives: Dennis M. Chack, Senior Vice President of Product Development, Marketing, and Branding; and Michael J. Dowling, Senior Vice President of External Affairs. Each of these terminated executives violated certain FirstEnergy policies and its code of conduct. These executives were terminated as of October 29, 2020. Such former members of senior management did not maintain and promote a control environment with an appropriate tone of compliance in certain areas of FirstEnergy’s business, nor sufficiently promote, monitor or enforce adherence to certain FirstEnergy policies and its code of conduct. Furthermore, certain former members of senior management did not reasonably ensure that relevant information was communicated within our organization and not withheld from our independent directors, our Audit Committee, and our independent auditor. Among the matters considered with respect to the determination by the committee of independent members of the FE Board that certain former members of senior management violated certain FirstEnergy policies and its code of conduct related to a payment of approximately $4 million made in early 2019 in connection with the termination of a purported consulting agreement, as amended, which had been in place since 2013. The counterparty to such agreement was an entity associated with an individual who subsequently was appointed to a full-time role as an Ohio government official directly involved in regulating the Ohio Companies, including with respect to distribution rates. FirstEnergy believes that payments under the consulting agreement may have been for purposes other than those represented within the consulting agreement. Immediately following these terminations, the independent members of its Board appointed Mr. Steven E. Strah to the position of Acting Chief Executive Officer and Mr. Christopher D. Pappas, a current member of the Board, to the temporary position of Executive Director, each effective as of October 29, 2020. Mr. Donald T. Misheff will continue to serve as Non-Executive Chairman of the Board. Additionally, on November 8, 2020, Robert P. Reffner, Senior Vice President and Chief Legal Officer, and Ebony L. Yeboah-Amankwah, Vice President, General Counsel, and Chief Ethics Officer, were separated from FirstEnergy due to inaction and conduct that the Board determined was influenced by the improper tone at the top. The matter is a subject of the ongoing internal investigation as it relates to the government investigations. Additionally, on February 17, 2021, the FE Board appointed Mr. John Somerhalder to the positions of Vice Chairperson of the FE Board and Executive Director of FE, each effective as of March 1, 2021. Mr. Misheff will continue to serve as Non-Executive Chairman of the FE Board and Mr. Pappas will continue to serve on the FE Board as an independent director. Mr. Somerhalder will help lead efforts to enhance FirstEnergy’s reputation. On March 7, 2021, the FE Board appointed Mr. Steven E. Strah to the position of Chief Executive Officer of FirstEnergy, effective as of March 8, 2021. On March 7, 2021, at the recommendation of the FirstEnergy Corporate Governance and Corporate Responsibility Committee, the FE Board also elected Mr. Strah as a Director of FirstEnergy, effective as of March 8, 2021, increasing the size of the FE Board from 11 to 12 members. Mr. Strah has been elected to the FE Board to serve for a term expiring at the FirstEnergy's 2021 Annual Meeting of Shareholders and until his successor shall have been elected. Also, in connection with the internal investigation, FirstEnergy recently identified certain transactions, which, in some instances, extended back ten years or more, including vendor services, that were either improperly classified, misallocated to certain of the Utilities and Transmission Companies, or lacked proper supporting documentation. These transactions resulted in amounts collected from customers that were immaterial to FirstEnergy and AGC. The Utilities and Transmission Companies will be working with the appropriate regulatory agencies to address these amounts.

Other Legal Matters

There are various lawsuits, claims and proceedings related to AGC's normal business operations pending against AGC. The loss or range of loss in these matters is not expected to be material to AGC.

AGC accrues legal liabilities only when it concludes that it is probable that it has an obligation for such costs and can reasonably estimate the amount of such costs. In cases where AGC determines that it is not probable, but reasonably possible that it has a material obligation, it discloses such obligations and the possible loss or range of loss if such estimate can be made. If it were ultimately determined that AGC has legal liability or is otherwise made subject to liability, it could have a material adverse effect on AGC's financial condition, results of operations and cash flows.

9. TRANSACTIONS WITH AFFILIATED COMPANIES

See the Revenues and Receivables section of Note 1 for a description of costs recovered from AE Supply and MP. In 2020 and 2019, there were additional affiliated company transactions with FESC, a subsidiary of FE, (including capital) for services performed at cost and payments made on behalf of AGC. The primary affiliated company transactions for AGC during the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
	(In thousands)	
Revenues	$ 24,908	$ 24,013
Expenses:		
Support services	220	301
Miscellaneous income	101	86
Interest expense to affiliates	2	526

FirstEnergy does not bill directly or allocate any of its costs to any subsidiary company. Costs are allocated from FESC. The majority of costs are directly billed or assigned at no more than cost. The remaining costs are for services that are provided on behalf of more than one company, or costs that cannot be precisely identified and are allocated using formulas developed by FESC. The current allocation or assignment formulas used and their bases include multiple factor formulas: each company's proportionate amount of FirstEnergy's aggregate direct payroll, number of employees, asset balances, revenues, number of customers, other factors and specific departmental charge ratios. Intercompany transactions with FirstEnergy and its other subsidiaries are generally settled under commercial terms within thirty days.

Affiliate accounts receivable and accounts payable balances relate to intercompany transactions that have not yet settled through the FirstEnergy money pool (see Note 6, "Short-Term Borrowings and Bank Lines of Credit").

AGC and FirstEnergy's other subsidiaries are parties to an intercompany income tax allocation agreement with FE and its other subsidiaries that provides for the allocation of consolidated tax liabilities. Net tax benefits attributable to FE are generally reallocated to the subsidiaries of FirstEnergy that have taxable income. That allocation is accounted for as a capital contribution to the company receiving the tax benefit (see Note 3, "Taxes").